

Guidance Plan on Full Implementation of Inter-Entity Costing

The standard *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts* requires full implementation of the inter-entity cost provision in Statement of Federal Financial Accounting Standards (SFFAS) 4. By fully implementing the provisions in SFFAS 4 this standard will require the following for inter-entity cost:

Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity. (Text preceding paragraph 105 of SFFAS 4)

During its deliberations on the standard, the Federal Accounting Standards Advisory Board (FASAB or the Board) determined that there was a need for additional detailed, practical guidance on various issues related to the full implementation of inter-entity costing. Therefore, the Board requests the Accounting and Auditing Policy Committee (AAPC) Inter-Entity Task Force to continue its work in this area by developing one or more Technical Releases (TR) that will address implementation issues raised by respondents (and detailed below.) The Board has also suggested certain operational guidance be issued by the Office of Management and Budget (OMB). It should be noted that the guidance does offer a venue for agencies to direct agency-specific questions.

The effective date for implementation of the standard is for periods beginning after September 30, 2008. It is the intent that the effective date will allow time for the issuance of one or more TR with milestone dates as detailed below.

A. Guidance to be developed by the AAPC Task Force

The Board requests the AAPC to continue the work begun by its task force by developing one or more TR that will address implementation issues raised by respondents. The Board believes that the task force could build upon their already extensive survey results and research, as well as the comment letters and staff analysis in developing the guidance. Additionally, the task force may wish to solicit volunteers from the agencies that provided comments to the ED for assistance. Also, volunteers could be requested from agencies that successfully implemented Interpretation Number 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4 considering the effective date for this was for periods beginning after September 30, 2004. Communication during the development of the draft TR should encourage identification of cases at individual agencies as well as soliciting feedback on draft guidance.

This plan from FASAB staff includes issue areas that should be addressed and is intended to facilitate meeting key milestones.

1. Extensive evaluation of costs to determine which ones may be considered “Broad and General” for all entities and if possible, a list of the costs that should be considered Broad and General for all entities will be developed.
2. Additional guidance or discussion on the factor *Directness of relationship to the entity’s operations* as used in determining if a transaction should be considered material to the receiving entity. Guidance may clarify some of the following comments provided by respondents:
 - o Clarity on the directness of the relationship to the entity’s operations?
 - o If the costs associated with the goods or services being provided are allocated to more than one program or output, is it still considered integral?
3. Additional guidance or discussion on the factor *Identifiability* as used in determining if a transaction should be considered material to the receiving entity. Guidance may clarify some of the following comments provided by respondents:
 - o If a cost cannot be assigned to a receiving entity by a provider, with reasonable precision, it appears that the receiving entity is exempted from imputing the cost. Is this correct? How is reasonable precision defined? How will receiving entity auditors determine that the providing entity cannot identify the cost, with reasonable precision, for the receiving entity?
 - o Who is doing the matching in the third criterion, the provider or the receiver? Depending upon the circumstances, either the provider or the receiver may provide the most accurate data.
4. Technical Releases addressing – in logical groupings if feasible – individual inter-entity costs identified by preparers or auditors. The AAPC Task Force will collect individual inter-entity requests for guidance on specific cases and determine if general guidance in the area can be provided on the issue, and if so, a TR will provide such clarifying guidance. If appropriate, the TR may also include a detailed case study example for reference which will also include the accounting entries for the receiving and providing entity. The actual cases will be forwarded to OMB with the Task Force’s recommendation, which will reference the general guidance in the TR. However, final disposition of the individual entity-specific cases will be determined by OMB.

This guidance may clarify some of the following comments provided by respondents:

- o At what level will costs be considered material? Will materiality occur at the appropriation/fund level or at the program level or at the transaction level? Another issue is whether materiality should be set at a particular threshold. This may more objectively contribute to making the determination as to whether a cost is material, but again, at which level should the threshold be applied?
- o Is materiality also determined by the importance of the goods or services provided to the receiving entity in completing the mission associated with a particular program or output?
- o The standard requires recognition of inter-entity costs when they are material to the receiver, but ignores inter-entity costs that are material to the provider. If a small Agency provides goods and services to a large Agency, the inter-entity costs may be immaterial to the receiver, but very material to the provider.

Target Completion Dates:

Technical Release addressing items 1 through 3 above—**9/30/06** (Note—Draft TR should be issued for comment by **3/31/06**)

Technical Release addressing other general guidance (if deemed necessary) based on the AAPC’s review of the specific cases—**6/30/08** (Note-- Individual requests for guidance must be received by **6/30/07** for resolution by **6/30/08**.)

B. Guidance to be developed by OMB:

OMB, working through the CFO Council and in conjunction with the Department of Treasury where appropriate, is requested to provide guidance on the following operational and managerial aspects of implementation.

1. Guidance detailing the responsibilities and deliverables of both the providing and receiving entity, establishing timelines for carrying out those responsibilities; and establishing a communication process between providing and receiving entities.
2. As detailed in Section A, point 4—the AAPC task force will collect individual inter-entity requests for guidance on specific cases for analysis. The cases will be forwarded to OMB with the task force's recommendation, which will reference the general guidance in the TR. However, final disposition of the individual entity-specific cases will be determined by 6/30/08 for individual cases. Note--Individual requests for guidance must be received by 6/30/07 for resolution by 6/30/08.

Target Completion Dates:

Guidance addressing item 1 above—**9/30/06** (Note—Suggest Draft be issued for comment by **3/31/06**)

Final disposition of individual entity-specific cases—**6/30/08**

Summary Timeline of actions on forthcoming Inter-Entity Implementation Guidance

